

CHAPTER 2

PERMANENT IMPROVEMENT PROJECT DEFINITION

Under Section 2-47-50 of the South Carolina Code of Laws, the Budget and Control Board shall formally establish each permanent improvement project before any actions which implement the project can be undertaken. The project must also be established before any expenditures can be made toward the project purpose.

Section 10-1-180 of the South Carolina Code of Laws gives the Joint Bond Review Committee and the Budget and Control Board the authority to determine the cost amount which requires a permanent improvement project to be established. Minor construction projects that do not exceed that cost amount do not require approval of the Budget and Control Board and, therefore, are not established as permanent improvement projects.

In September 1991, the Budget and Control Board approved the following definition of a permanent improvement project, after review by the Joint Bond Review Committee. The definition addresses the cost amount of projects which define them as permanent improvement projects, as well as other qualifying factors. In 2005, the definition was changed statutorily for higher education institutions only and is now found within Code Section 2-47-50. The permanent improvement definitions for both state agencies and higher education institutions are below.

Definition for State Agencies

Permanent improvement projects are defined as:

- (1) any acquisition of land, regardless of cost;
- (2) any acquisition (as opposed to the construction) of buildings or other structures, regardless of cost;
- (3) construction of additional facilities and any work on existing facilities including their renovation, repair, maintenance, alteration or demolition in those instances in which the total cost of all work involved is \$100,000 or more;
- (4) architectural and engineering and other types of planning and design work, regardless of cost, which is intended to result in a permanent improvement project. Master plans and feasibility studies are not permanent improvement projects and are therefore not to be included;
- (5) capital lease purchase of any facility acquisition or construction; and
- (6) equipment that either becomes a permanent fixture of a facility or does not become permanent but is included in the construction contract should be included as a part of a project.

All permanent improvements that meet the above definition must become a project, regardless of the source of funds. However, any agency that has been authorized/appropriated Capital Improvement Bond, Capital Reserve Fund or specific state appropriated funds by the General Assembly for capital improvements must process a permanent improvement project, regardless of the amount. In addition, any

agency proposing to transfer appropriated operating funds to a permanent improvement project must also process a permanent improvement project, regardless of the amount.

Expenditures for projects costing less than \$100,000 under current policies are not subject to Board approval or Bond Committee review. As a part of the Annual Permanent Improvement Program (*replaced by the Comprehensive Permanent Improvement Plan*) process, however, each agency may be required to report on expenditures in the under-\$100,000 category in an annual report to the Board and the Committee due each year in September. In addition, this information will be required to be provided as the Committee or Board requests it.

The \$100,000 cost cut-off level in the definition of a permanent improvement is subject to adjustment by joint action of the Bond Committee and the Budget and Control Board.

Adopted by Joint Bond Review Committee 8/20/91

Adopted by Budget and Control Board 9/10/91

Definition for Higher Education Institutions

For purposes of this chapter, with regard to all institutions of higher learning, permanent improvement project is defined as:

- (1) acquisition of land, regardless of cost;
- (2) acquisition, as opposed to the construction, of buildings and other structures, regardless of cost;
- (3) construction of additional facilities and work on existing facilities for any given project including their renovation, repair, maintenance, alteration, or demolition in those instances in which the total cost of all work involved is five hundred thousand dollars or more;
- (4) architectural and engineering and other types of planning and design work, regardless of cost, which is intended to result in a permanent improvement project. Master plans and feasibility studies are not permanent improvement projects and are not to be included;
- (5) capital lease purchase of a facility acquisition or construction; and
- (6) equipment that either becomes a permanent fixture of a facility or does not become permanent but is included in the construction contract shall be included as a part of a project.

Any permanent improvement project that meets the above definition must become a project, regardless of the source of funds. However, an institution of higher learning that has been authorized or appropriated capital improvement bond funds, capital reserve fund or state appropriated funds, or state infrastructure bond funds by the General Assembly for capital improvements shall process a permanent improvement project, regardless of the amount.

Code Section 2-47-50

Exceptions to \$100,000 and \$500,000 Cut-Off Levels

The permanent improvement project definition includes exceptions to the \$100,000 cut-off level for state agencies and the \$500,000 cut-off level for higher education institutions for projects funded with Capital Improvement Bond funds, Capital Reserve funds and state appropriated funds. Additionally, the definition for higher education institutions includes an exception to the \$500,000 cut-off level for projects funded with state infrastructure bond funds. According to the two definitions, projects funded with these sources must be established as permanent improvement projects regardless of the project amount.

The Capital Budgeting Unit received clarification from the Joint Bond Review Committee on the exception to the \$100,000 cut-off for state appropriated funds after the new definition was adopted. This clarification would also apply to the \$500,000 level for higher education institutions under Code Section 2-47-50. Under the clarified definition, state-funded projects which must be established as permanent improvement projects regardless of the amount include the following:

- (1) Projects which receive specific line item authorizations in specific amounts in legislation such as the Appropriations Act.
- (2) Projects using state appropriated operating funds for permanent improvements.
- (3) Projects using the state appropriated fund sources above when the funds are transferred to establish or revise another project.

However, projects using formula funds for the colleges and universities and funds earmarked specifically for maintenance for the agencies need only be established as permanent improvement projects if the amount exceeds \$100,000 and \$500,000 for agencies and institutions, respectively.

Projects Using Excess Debt Service

Projects using excess debt service as a fund source have not specifically been addressed by the permanent improvement project definition. However, because of statutory requirements governing the use of these funds by certain agencies, all projects using excess debt service funds must be established as permanent improvement projects regardless of the project amount.

Projects Exceeding the \$100,000 or \$500,00 Cut-Off Levels After Project Start

If an agency starts a project which does not meet the relevant permanent improvement project definition, but later exceeds the \$100,000 or \$500,000 cut-off levels or requires the use of state appropriated or capital improvement bond funds, the agency or institution must establish the project as a permanent improvement project. The project is established by submitting an A-1 form to the Capital Budgeting Unit as soon as the agency or institution determines the project cost will exceed the cut-off level or the project will require the use of state appropriated or capital improvement bond funds. The approval process is the same as that followed for any project of its type and budget.

A project may exceed the relevant cut-off when A&E work is completed, bids are received or a change order is processed. Because a project of this type may already be under review by the State Engineer's Office, the Capital Budgeting Unit will coordinate and work with that office to ensure as smooth an approval of the project establishment as possible without any project delays.

If an agency anticipates a project budget to exceed the relevant cut-off level at any time, that project can be established before any expenditures are made, even if the original budget is under the \$100,000 or \$500,000 level. This allows all project expenditures to be captured on SPIRS from the project's beginning.

Equipment Permanent Improvement Projects

By definition, equipment that either becomes a permanent fixture of a facility, or does not become permanent but is included in the construction contract, must be established as a permanent improvement project. Equipment relating to building construction or additions which must be established in a permanent improvement project includes all equipment included in the construction contract, from HVAC equipment to major building furnishings.

Once a building or addition is completed, the replacement of any equipment which is intrinsic to the operation of the building or without which a building cannot function properly, such as HVAC, water and sewer, should be established in a permanent improvement project. This also includes the addition of any equipment which requires altering the facility to accommodate it, such as major refrigeration equipment, to be established as a project as well.

The equipment projects which should be established as permanent improvements are guided also by the respective \$100,000 and \$500,000 cut-off levels and the source of funds exceptions. If questions arise on the need to establish a specific equipment project, please contact your analyst in the Capital Budgeting Unit.

Building Acquisition Projects

Under the permanent improvement project definition, a project involving the acquisition (as opposed to the construction) of a building or other structure is a permanent improvement regardless of the cost. This includes any building or structure which is acquired as part of a land/building acquisition. It also includes the acquisition of any building or structure, such as a pre-fabricated or manufactured housing-type structure, regardless of the cost if the structure will be listed on the agency's real property inventory. The budget of any project established for the acquisition of this type of building should include the cost of acquiring the structure as well as any additional costs, such as water and sewer hook-ups and foundation construction. *(See Chapter 7 for further information)*